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REPORT
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POTASH ROYALTY REDUCTION ACT OF 2004

OCTOBER 6, 2004.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. POMBO, from the Committee on Resources, submitted the following

R E P O R T

[To accompany H.R. 4984]

[Including cost estimate of the Congressional Budget Office]

The Committee on Resources, to whom was referred the bill (H.R. 4984) to provide that the royalty rate on the output from Federal lands of potassium and potassium compounds from the mineral sylvite in the 5-year period beginning on the date of the enactment of this Act shall be reduced to 1.0 percent, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE OF THE BILL

The purpose of H.R. 4984 is to provide that the royalty rate on the output from Federal lands of potassium and potassium compounds from the mineral sylvite in the 5-year period beginning on the date of the enactment of this Act shall be reduced to 1.0 percent, and for other purposes.

BACKGROUND AND NEED FOR LEGISLATION

Potash is used primarily as an agricultural fertilizer (plant nutrient) because it is a source of soluble potassium, one of the three primary plant nutrients; the others are fixed nitrogen and soluble phosphorus. Modern agricultural practice uses these primary nutrients in large amounts to assure plant health and proper maturation. The fertilizer industry used about 85 percent of U.S. potash 2003 sales (imports and domestic production), and the chemical industry used the remainder. There are no substitutes for potassium as an essential plant nutrient and an essential nutritional requirement for animals and humans.

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The domestic potash industry is being threatened by foreign producers in countries with substantial state support. Additionally, because potash is primarily used as a fertilizer, the economics of the industry are almost directly tied to the farm economy. During the 1980s, farm production commonly yielded large commodity inventories that depressed market prices. Farmers lowered production costs, thereby decreasing potash usage which drove down potash prices and sales volume. Support programs to reduce farm product oversupply reduced acreage in production. The farm economy subsequently purchased less equipment, chemicals and fertilizers with negative impacts on the potash industry. The cyclic nature of the farm economy does not allow for relaxed vigilance with respect to the health of the potash market.

The United States Geological Survey reported that the 2003 production value of marketable potash was about $260 million. Domestic potash is produced in Michigan, New Mexico, and Utah. Most of the domestic production is from southeastern New Mexico, providing more than 70 percent of total U.S. producer sales. A 5-year reduction in royalty rates would provide the industry the ability to employ new and more efficient production methods in potash mining, sustain and create new jobs, extend the life of existing deposits and make technological advances that will expand the availability of the Nation's potash resources.

H.R. 4984 provides that for a five-year period the royalty rate on the quantity or gross value of the output from federal lands of potassium compounds from the mineral sylvite at the point of shipment to market shall be 1.0 percent. The bill prescribes implementation guidelines under which fifty percent of such royalties, together with interest earned from the date of payment, shall be refunded by the Secretary of the Treasury to the payor of the royalties to be used solely for land reclamation purposes. The Secretary of the Interior is required to assess the impact of the royalty reduction and report to Congress during the fifth year of the royalty reduction. The report is to include recommendations on whether the reduced royalty rate should continue after the five year period.

COMMITTEE ACTION

Representative Steven Pearce (R–NM) introduced H.R. 4984 on July 22, 2004. The bill was referred to the Committee on Resources, and within the Committee to the Subcommittee on Energy and Mineral Resources. On September 9, 2004, the Subcommittee held a hearing on the bill. On September 15, 2004, the Full Resources Committee met to consider the bill. No amendments were offered and the bill was ordered favorably reported to the House of Representatives by unanimous consent.

COMMITTEE OVERSIGHT FINDINGS AND RECOMMENDATIONS

Regarding clause 2(b)(1) of rule X and clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee on Resources' oversight findings and recommendations are reflected in the body of this report.

CONSTITUTIONAL AUTHORITY STATEMENT

Article I, section 8 of the Constitution of the United States grants Congress the authority to enact this bill.

COMPLIANCE WITH HOUSE RULE XIII

1. Cost of Legislation. Clause 3(d)(2) of rule XIII of the Rules of the House of Representatives requires an estimate and a comparison by the Committee of the costs which would be incurred in carrying out this bill. However, clause 3(d)(3)(B) of that rule provides that this requirement does not apply when the Committee has included in its report a timely submitted cost estimate of the bill prepared by the Director of the Congressional Budget Office under section 402 of the Congressional Budget Act of 1974.

2. Congressional Budget Act. As required by clause 3(c)(2) of rule XIII of the Rules of the House of Representatives and section 308(a) of the Congressional Budget Act of 1974, this bill does not contain any new budget authority, credit authority, or an increase or decrease in revenues or tax expenditures. According to the Congressional Budget Office, enactment of this bill would increase direct spending by $10 million over the 2005–2009 time period.

3. General Performance Goals and Objectives. The bill does not authorize funding and therefore clause 3(c)(4) of rule XIII of the Rules of the House of Representatives does not apply.

4. Congressional Budget Office Cost Estimate. Under clause 3(c)(3) of rule XIII of the Rules of the House of Representatives and section 403 of the Congressional Budget Act of 1974, the Committee has received the following cost estimate for this bill from the Director of the Congressional Budget Office:

H.R. 4984—Potash Royalty Reduction Act of 2004

Summary: H.R. 4984 would temporarily reduce the federal royalty rate charged to producers of potassium and potassium compounds (potash) on federal land. The bill would direct the Secretary of the Treasury, without further appropriation, to return the federal share of potash royalties to producers to support projects to reclaim federal land where potash is mined.

CBO estimates that enacting H.R. 4984 would increase direct spending by $2 million in 2005 and $10 million over the 2005–2009 period. Enacting the bill would not affect revenues. H.R. 4984 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). Enacting this legislation would, however, result in a reduction in payments to the states where potash is mined totaling $1.3 million annually over the 2005–2009 period. The bill would impose no other costs on state, local, or tribal governments.

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 4984 is shown in the following table. The costs of this legislation fall within budget function 300 (natural resources and environment).

	By fiscal year, in millions of dollars—				
	2005	2006	2007	2008	2009
CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	2	2	2	2	2

	By fiscal year, in millions of dollars—				
	2005	2006	2007	2008	2009
Estimated Outlays	2	2	2	2	2

Basis of estimate: CBO estimates that enacting H.R. 4984 would increase direct spending by $2 million a year over the next five years. (The bill would not affect direct spending after 2009.) That amount includes the cost of providing royalty relief and other payments to producers of potash.

H.R. 4984 would reduce the federal royalty rate charged to producers of potash on federal land over the 2005–2009 period. Based on information from the Minerals Management Service about the level of potash royalties in recent years, CBO estimates that providing royalty relief under H.R. 4984 would reduce gross offsetting receipts (a credit against direct spending) by $2.6 million a year over the 2005–2009 period. Because states generally receive half of those royalties, we also estimate that direct spending for payments to states would fall by $1.3 million annually over that period, resulting in a net increase in direct spending of $1.3 million in 2005 and $6.5 million over the next five years for this provision.

Over that same period, the bill also would direct the Secretary of the Treasury, without further appropriation, to return the federal share of potash royalties to producers to support projects to reclaim federal land where potash is mined (thus, resulting in no net receipts to the federal government). CBO estimates that those payments would increase direct spending by nearly $700,000 in 2005 and $3.5 million over the next five years.

Intergovernmental and private-sector impact: H.R. 4984 contains no intergovernmental or private-sector mandates as defined in UMRA. Enacting this legislation would, however, result in a reduction in payments to the states where potash is mined totaling $1.3 million annually over the 2005–2009 period. The bill would impose no other costs on state, local, or tribal governments.

Estimate prepared by: Federal Costs: Megan Carroll; Impact on State, Local, and Tribal Governments: Marjorie Miller; and Impact on the Private Sector: Karen Raupp.

Estimate approved by: Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

COMPLIANCE WITH PUBLIC LAW 104–4

This bill contains no unfunded mandates.

PREEMPTION OF STATE, LOCAL OR TRIBAL LAW

This bill is not intended to preempt any State, local or tribal law.

CHANGES IN EXISTING LAW

If enacted, this bill would make no changes in existing law.

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